

STANDING COMMITTEE REPORT NO. 23-09

RE: C.R. NO. 23-52/W&M

SUBJECT: NOMINATION OF MS. ROSE NAKANAGA TO SERVE AS
THE SECRETARY OF THE DEPARTMENT OF FINANCE AND
ADMINISTRATION OF THE FEDERATED STATES OF
MICRONESIA.

SEPTEMBER 13, 2023

The Honorable Esmond B. Moses
Speaker, Twenty-Third Congress
Federated States of Micronesia
Second Regular Session, 2023

Dear Mr. Speaker:

Your Committee on Ways and Means, to which was referred
Congressional Resolution No. 23-99, entitled:

“TO CONFIRM THE NOMINATION OF MS. ROSE N. NAKANAGA
TO SERVE AS THE SECRETARY OF THE DEPARTMENT OF
FINANCE AND ADMINISTRATION OF THE FEDERATED STATES
OF MICRONESIA.”,

begs leave to report as follows:

The intent and purpose of this resolution are expressed in its
title.

On August 16, 2023, the President submitted to Congress a letter
with attachments, filed as Presidential Communication No. 23-99,
containing the resolution for the nomination of Ms. Rose
Nakanaga as Secretary of the Department of Finance and
Administration of the Federated States of Micronesia, and her
curriculum vitae. In his letter, the President states that the
nominee is qualified for this cabinet position.

Article X, Section 2(d) of the FSM Constitution and 2 F.S.M.C,
Section 207 as amended by Public Law No. 21-236, provide that

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ADMINISTRATION OF THE FEDERATED STATES OF
MICRONESIA.

SEPTEMBER 13, 2023

the appointment by the President of "the principal officers of executive departments in the national government," including "the secretaries of departments and their deputies", are subject to "the advice and consent of the Congress". Your Committee on Ways and Means has exercised its jurisdiction on financial matters in the consideration of this nomination.

Nominee's Qualifications

Your Committee has first considered the nominee's qualifications.

It notes that the nominee holds a bachelor's degree in business administration from Central Michigan University, with a specialization in finance.

It also notes that the nominee has considerable experience in the Department of Finance and Administration, to which she has devoted 22 years of her career. Indeed, the nominee has served on several occasions as Assistant Secretary in the Division of Investment and International Finance and in the Division of Treasury.

Your Committee also notes that the nominee served at the World Bank for three and a half years.

She then joined the Bank of the Federated States of Micronesia in a senior management position as Senior Vice President of the Bank.

Your Committee notes that her extensive experience in public finance, accounting, and the banking and financial industry provides her with the skills necessary to serve as Secretary of Finance and Administration.

Congressional Confirmation Hearing

Your Committee on Ways and Means held a public confirmation hearing on Congressional Resolution Number 23-99 on August 28,

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ADMINISTRATION OF THE FEDERATED STATES OF
MICRONESIA.

SEPTEMBER 13, 2023

2023.

Attendees

Present at the hearing were the nominee, a representative of the Office of the President, the Chief Investigator of the Office of the National Public Auditor representing the Public Auditor, the Acting Secretary of Finance and Administration and Assistant Secretary of the Budget Division, the Assistant Secretary of the Division of Investment and International Finance of the Department of Finance and Administration, the Assistant Attorney General of the Department of Justice, a representative of the FSM Trust Fund, and other government officials, employees of the National Government and interested members of the public.

The Chairman opened the hearing thanking the witnesses and the public for attending, and then introduced the nominee. The nominee introduced herself and confirmed that she had accepted the position of Secretary of Finance and Administration offered by the President. She stated that she is still Vice President of the FSM Bank. However, she explained that after her 65th birthday which allowed her to take semi-retirement, she changed her position from Branch Manager of the Bank to focus on relationships with top customers.

Reasons for accepting the position of Secretary

When asked about her reasons for accepting the role of Department Secretary, she stated that her desire to help remedy the current dysfunction within the Department and her sense of duty encouraged her to accept the position, especially after hearing about the allegations of fraud and misuse of funds.

When asked about compensation, the nominee stated that her compensation had not been discussed between her and the President.

She stated that if she was confirmed, she would have to submit her resignation to the Bank of the FSM and work with the Bank's management to set a date on which she would leave her position at the Bank and assume her new role.

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MICRONESIA.

SEPTEMBER 13, 2023

Nominee's awareness of the Department's activities

The Chairman noted that the nominee has been out of the Department of Finance and Administration for 5 to 7 years. He asked whether she had kept track of the activities and files of the Department. The nominee replied that she has only kept track of the Department's activities in the context of her work at the FSM Bank, as the department is the Bank's main customer.

When asked if she suspected any weaknesses in the Finance Department's financial management of the funds, she made a general statement, explaining that although at the bank she did not review the Finance Department's day-to-day transactions at the Bank, any suspicious activity should be reported.

The Chairman then asked her if, since her meeting with the President, she has reviewed the current functioning of the Department. She replied that she has not physically visited the Department because it would be presumptuous of her to do so since she has not yet been confirmed in her position.

Allegations of wrongdoing and negligence within the Department

The Chairman asked the nominee about allegations of wrongdoing and negligence within the Department of Finance and Administration. He asked the nominee, in the event in which these allegations were true and confirmed, what steps she would take to prevent their recurrence in the future.

The nominee replied that she was not currently employed by the Department and therefore had not investigated these matters. However, she asserted that, if appointed, one of her priorities would be to investigate these allegations, review the processes in place, and strengthen them to address potential weaknesses and prevent fraud. She also referred to her previous relevant experience within the Department with regards to the handling of documents. In this regard, she stated that she had worked on the implementation of control and verification processes for the examination of documents transmitted to the Department, precisely in order to prevent such situations from recurring.

STANDING COMMITTEE REPORT NO. 23-09

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MICRONESIA.

SEPTEMBER 13, 2023

Delays in payments

On the issue of delays in payments, the Chairman stressed the need to speed up the payment of invoices, PCDs, salaries and overtime by the Department, emphasizing that invoices for 2019 have not yet been paid by the Department. A Committee member gave the example of the crew of FSM vessels who will not be paid until September because the Department who owes them their salaries is not willing to expedite the payment requests.

It was also mentioned that the Department is charging interest on amounts owed by the National Government, among others, and that this must stop.

The nominee was asked how she would ensure that payments are made promptly. She replied that the President shares this concern with Members of Congress. She confided that she would need the help of current Department employees to determine the cause of these delays and ways to speed up the processes. She stated that her priorities would be to ensure that debts are paid on time, that documents are not lost, that delays are not intentionally caused and, if documents are lost or misplaced, to prevent responsible employees from concealing this situation, as this appears to be causing the delays.

The Chairman told the nominee that if she is confirmed in office and payments are an issue, she should feel free to meet with Congress to discuss the matter.

In addition, the Chairman urged the nominee not to authorize arrangements whereby employees or small businesses would borrow money from the Treasury while waiting for payday.

Decrease in revenues to be appropriated by the National Government

With regard to recent constitutional amendments following the July 2023 referendum, the Chairman raised the issue of the amendment proposing that 50% of revenues from fishing rights be shared with State governments. He pointed out that if the

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MICRONESIA.

SEPTEMBER 13, 2023

results of the referendum are certified and the constitutional amendment is approved, the National Government's budget will be significantly reduced. This means that the budget of the National Government will have to be adjusted. The Chairman also warned that the Department of Finance and Administration will have to work with the States on the timing of the payment of their share by the Department, which is usually paid quarterly.

Compact of Free Association III

With regard to the Compact of Free Association III, the Chairman asked if the nominee was familiar with the contents of this agreement. The nominee replied that the contents had not yet been made public and that she had read the publicly available information on the Fiscal Procedures Agreement, which is of great importance to the Department of Finance. The Chairman indicated that subsidies to the infrastructure sector under Compact III will be a challenge for the States.

Tax reform

Regarding tax reform, the nominee was asked whether she would pursue such reform. She responded that taxes need to be raised, but that the current proposed tax framework is not business-friendly and therefore not accepted by the business community. She added that tax reform should be more business-friendly.

The Chairman said that it was essential for the Secretary of Finance and Administration to engage with the States on tax reform to ensure that they approve the proposed framework.

FSM Trust Fund

With respect to the FSM Trust Fund and the Compact Trust Fund, the nominee stated that she worked in the Investment and International Finance Division and had been involved in the establishment and administration of the Compact Trust Fund and the FSM Trust Fund. Although she had not reviewed the health of these trust funds, she confirmed that she was familiar with their operations and would look into the matter if confirmed in her position.

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MICRONESIA.

SEPTEMBER 13, 2023

A witness confirmed that the FSM Trust Fund is currently worth over \$400 million. The Chairman asked the future Secretary to keep a close eye on this issue, as the fund had lost considerable value during the COVID.

The Chairman then asked the nominee what she thought of the recently introduced bill proposing that the national government stop contributing to the FSM Trust Fund. The nominee replied that she would need to have access to data on the performance of the FSM Trust Fund in order to be able to form an opinion. The Chairman invited her to look into the matter, if confirmed, in particular the obligation of States to invest in their sub-accounts and the extent of their rights to withdraw funds from those sub-accounts.

Green Climate Fund accreditation

The possibility for the Department of Finance and Administration of becoming an accredited entity of the Green Climate Fund was raised. The nominee stated that she did not yet know what her policy would be in this regard.

Financial Management Regulations

Finally, the Chairman asked that, in general, updated Financial Management Regulations and other applicable regulations be provided to Congress in a timely manner.

Witness testimony and public support

Witnesses at the hearing confirmed their full support for Ms. Nakanaga's appointment.

The Acting Secretary of Finance and Administration stated that he saw no one else for the position and that, given Ms. Nakanaga's past experience with the Department, the nominee was the right captain and had all the skills necessary to resolve the problems and complaints facing the Department, and that she could also contribute to the management of the Compact obligations.

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ADMINISTRATION OF THE FEDERATED STATES OF
MICRONESIA.

SEPTEMBER 13, 2023

The representative of the Office of the President reiterated that the nominee has extensive experience in the field of finance.

The Department of Justice confirmed its support for the nominee. The nominee confirmed that she has no criminal record.

Overall, it is noteworthy that a significant number of Department of Finance and Administration employees and others came to this confirmation hearing to support Ms. Nakanaga's appointment. Your Committee also notes the enthusiastic and interested support of her former colleagues from the Department of Finance, who currently hold key positions within the Department.

The hearing concluded with the Chairman thanking the nominee, the witnesses and the audience for their participation.

Conclusion

Based on a review of the nominee's experience, qualifications and testimony, as well as the testimony of the witnesses present at the confirmation hearing, your Committee on Ways and Means is satisfied that the nominee Ms. Rose Nakanaga is fit and able to serve as Secretary of Finance and Administration of the Federated States of Micronesia and recommends that she be confirmed as Secretary of Finance and Administration of the Federated States of Micronesia.

Your Committee concurs with the intent and purpose of C.R. No. 23-52, and recommends its adoption in the form attached hereto.

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SEPTEMBER 13, 2023

Respectfully submitted,

/s/ Isaac V. Figir
Isaac V. Figir, chairman

/s/ Perpetua S. Konman
Perpetua S. Konman, vice chairwoman

Victor V. Gouland, member

/s/ Peter M. Christian
Peter M. Christian, member

/s/ Tiwiter Aritos
Tiwiter Aritos, member

Joseph J. Urusemal, member

Paliknoa K. Welly, member